

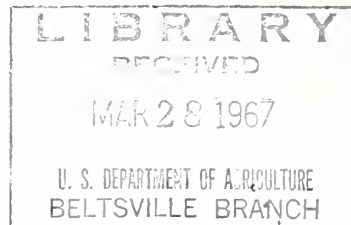
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IMPACT OF CENTRAL AMERICAN INTEGRATION ON U.S. AGRICULTURAL EXPORTS

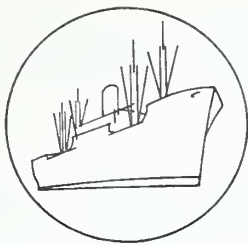
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SPECIAL in this issue

IMPACT OF CENTRAL AMERICAN INTEGRATION ON U.S. AGRICULTURAL EXPORTS

by

Norman R. Kallemeyn 1/

U.S. agricultural exports have been increasing at unprecedented rates in recent years and were a record \$6.7 billion in 1965/66, but exports to the less developed countries of Latin America have remained fairly stable. The economic expansion and resulting income growth of Western Europe and Japan has resulted in exporters looking to these markets as commercial outlets for U.S. farm products rather than to the lower income markets in other areas.

While total trade with our neighbors to the south has not been showing a substantial increase, the value of the trade now taking place between the United States and Latin America is particularly important to those Latin American countries that depend on exports of one or a few commodities for their export earnings.

Students of international trade have generally assumed that it is economically advantageous to all trading nations for the less developed countries to supply mainly raw products and the developed countries to supply primarily manufactured products. This assumption which is used by many to judge the contribution of trade in economic growth has generally prevailed in trade between the United States and Latin America. Latin American countries have exported large volumes of raw products, including coffee, sugar, cocoa beans, and bananas among the agricultural products, and oil, iron ore, manganese ore, copper, and sodium nitrate among the nonagricultural products. The sale of these valuable raw products provides the dollars used to buy U.S. finished items -- chemicals, machinery and transportation equipment, and other manufactured products.

U.S. exports of agricultural products to Latin America are not currently as large as such exports to other areas, but economic and social changes taking place in the region should provide the income necessary to purchase larger volumes of agricultural products in the future. Economic integration is the primary economic change taking place in the region.

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The major -- and most of the small -- trading countries of Latin America are members of some economic union whether it be the Central American Common Market (CACM), Latin American Free Trade Association (LAFTA), or the Caribbean Economic Community (CARIFTA).

Since the ratification of the General Treaty of Economic Integration (promulgated in December 1960) by Guatemala, El Salvador, and Nicaragua in June 1961, the CACM countries have experienced unprecedented prosperity. Honduras ratified the treaty in 1962, and Costa Rica did the same in 1963. As the data in table 7 show, per capita income has been increasing steadily in the CACM countries.

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The continuous expansion of the economies of the five CACM members has been due mainly to a succession of good crop years and the ability to move the increased production into world trade channels. While the indices in table 8 give an indication of agricultural production increases in recent years, the combined agricultural exports of CACM increased from an average of about \$375 million during 1960-62 to about \$600 million in 1965. To a region that receives about 80 percent of its export earnings from agricultural exports, the expanding agricultural production is particularly important in sustaining the total economy. About 60 percent of the total active population of the region is employed in the agriculture sector, and this sector contributes about 35 percent of the region's gross domestic product.

Table 8 .--Central American Common Market: Indices of total agricultural production, crop production, and livestock production, average 1960-62 and annual 1963-65

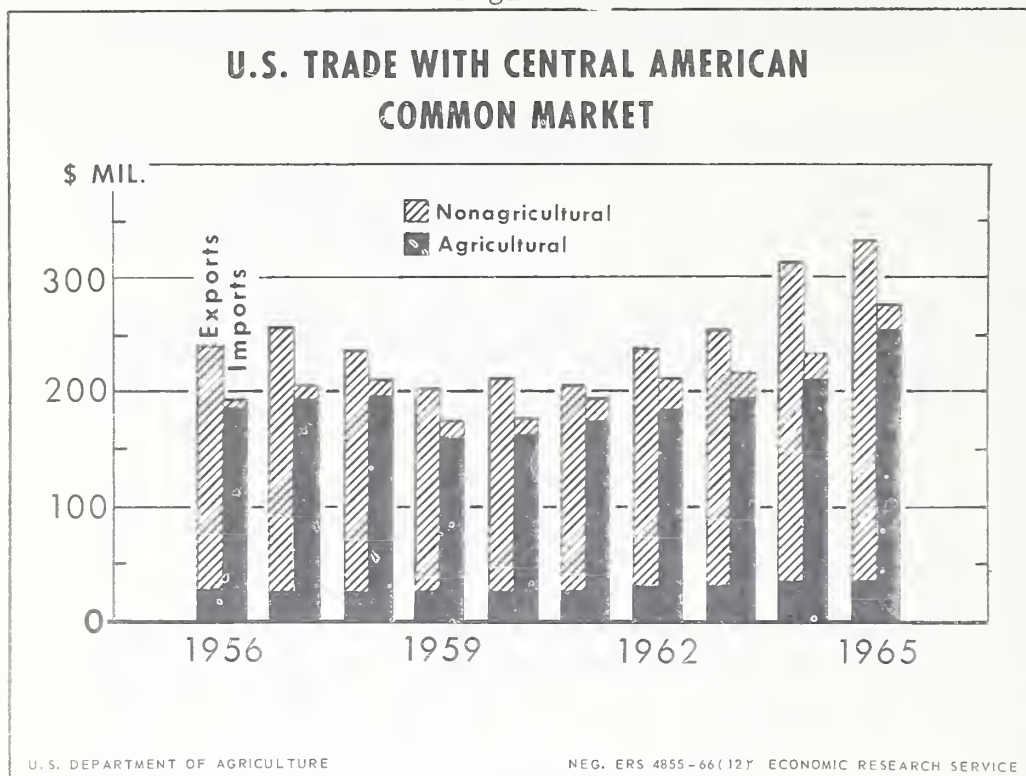
(1957-59 = 100)				
Country	Average 1960-62	1963	1964	1965
Guatemala:				
Total	122	144	144	155
Crop	125	149	149	161
Livestock	101	107	109	110
Honduras:				
Total	110	119	135	157
Crop	109	119	136	158
Livestock	114	129	132	139
El Salvador:				
Total	118	141	143	144
Crop	121	149	150	152
Livestock	102	100	100	100
Nicaragua:				
Total	116	134	152	144
Crop	130	167	209	191
Livestock	105	109	107	107
Costa Rica:				
Total	118	121	114	123
Crop	124	129	114	125
Livestock	102	101	116	119

Source: The Western Hemisphere Agricultural Situation -- Review of 1965 and Outlook for 1966, ERS-Foreign-154.

Figure 6 shows that U.S. imports of agricultural products from CACM have shown a steady rise since 1959 when they were \$163 million. Imports in 1965 were \$256 million, with coffee, bananas, and sugar accounting for 88 percent of the total. Although coffee is the major product imported from this region, imports of bananas and sugar have shown the most spectacular increase. Banana imports increased from \$27 million in 1959 to \$71 million in 1965, while sugar imports increased from \$2 million to \$17 million.

Under the Sugar Act of 1948, the countries of CACM have been receiving an increasing share of the total basic foreign allocations by the United States. Their combined share in 1959 was less than 1 percent (17,643 short tons) but was increased to 3.9 percent (137,123 tons) in 1965. As of September 13, 1966, their 1966 share was 4.5 percent (176,531 short tons).

Figure 6



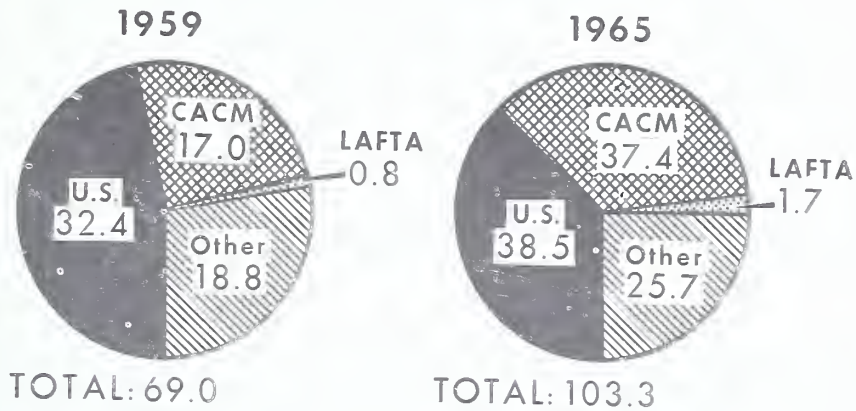
While the United States has been importing larger volumes of agricultural products from the CACM, U.S. exports of such products to CACM have remained small and have not shown a significant increase. In 1965, exports were \$37 million compared with \$38 million in 1964 and \$29 million during 1959-63. Nonagricultural product exports were \$212 million in 1956, but declined to \$174 million in 1959 -- the year prior to promulgation of the CACM treaty. After 1959, however, nonagricultural product exports increased 72 percent to \$300 million in 1965.

In 1965, the United States remained the largest supplier of agricultural products to CACM, but its market share was down from 47 percent in 1959 to 37 percent in 1965. Meanwhile, intra-CACM import trade increased from 25 percent of the total in 1959 to 36 percent in 1965 (figure 7). This increase in intra-Market trade can be mainly attributed to the increase in intra-Market trade of the commodities or commodity groupings shown in table 9. The following is a brief analysis of import trade patterns of the 10 major commodity groups shown in figure 8.

Wheat and flour.--Imports of wheat and flour comprised the major agricultural import item of the CACM in 1965 and in most previous years. Total imports were valued at \$21.1 million in 1965, with the United States remaining the major supplier -- 51 percent of the total. This share was 72 percent in 1959, however. Canada has made great gains in the CACM import market for wheat and flour and shipped \$9.6 million worth in 1965.

Figure 7

CENTRAL AMERICAN COMMON MARKET: AGRICULTURAL IMPORTS BY COUNTRY OR AREA OF ORIGIN, 1959 AND 1965*



\$ MIL.

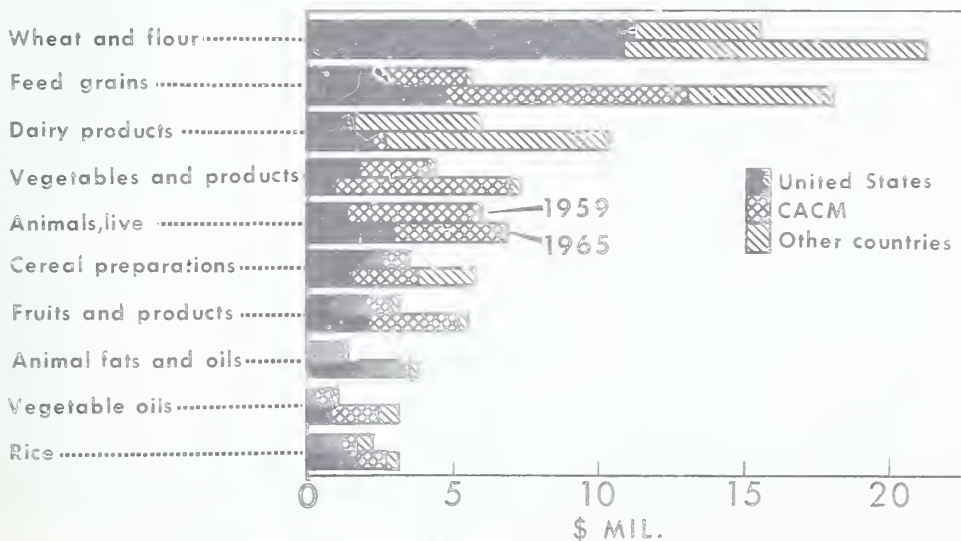
*PRELIMINARY.

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Figure 8

CENTRAL AMERICAN COMMON MARKET: IMPORTS OF MAJOR AGRICULTURAL COMMODITIES, BY ORIGIN, 1959 AND 1965*



*PRELIMINARY.

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Table 9.--Central American Common Market: Total agricultural imports, value by commodity and major country or area of origin, 1959, 1964, and 1965 ^{1/}

Commodity or Commodity Group	Total		United States		CACM		LAFTA		Other	
	1959	1964	1959	1964	1959	1964	1959	1964	1959	1964
-- 1,000 dollars --										
Animals, live	6,093	6,209	1,214	1,946	2,909	4,720	4,228	3,757	1	16
Meat and meat products	1,025	1,346	680	18	473	53	665	1,032	3	6
Dairy products	5,973	10,321	1,102	3,142	2,200	196	622	765	2/	6
Animal fats and oils	1,443	3,122	3,733	1,321	3,016	3,283	78	81	267	2/
Wheat and flour	15,458	18,149	21,076	11,138	12,209	10,722	2	7	81	2/
Rice	2,210	1,969	2,754	1,105	1,346	1,718	528	623	1,025	577
Cereal preparations	3,438	5,104	5,742	2,499	2,144	1,431	62	973	2,382	80
Feed grains and feeding stuff ..	5,554	10,786	18,083	2,615	5,302	4,613	2,879	5,212	8,485	11
Fruits and products	3,159	5,334	5,487	2,039	1,940	2,056	1,004	3,264	3,200	12
Vegetables and products	4,255	6,893	7,272	1,697	825	892	2,303	5,744	5,966	21
Margarine and shortening	3,953	2,458	2,734	2,294	427	174	600	2,023	2,538	4
Tobacco, unmanufactured	2,224	1,810	1,519	1,661	1,099	857	540	685	618	2/
Vegetable oils	977	2,564	3,174	150	396	780	559	1,278	1,663	---
Others	13,217	17,386	12,946	2,851	7,555	6,417	3,423	4,994	5,591	131
Total	68,979	93,451	103,298	32,366	41,365	38,525	16,947	30,399	37,370	840

^{1/} Preliminary

^{2/} Less than \$500.

Source: Anuario Estadístico Centroamericano De Comercio Exterior, Permanent Secretariat for the General Treaty for Central American Economic Integration (SIECA).

A common external tariff rate does not currently exist on wheat or wheat flour, and internal trade restrictions still exist on wheat flour. CACM produces very little wheat, and while third country imports will not be restricted by a common external tariff in the near future, the United States will probably be faced with greater price competition from Canadian and Argentine wheat and flour.

Feed grains and other animal feedstuffs.--As pointed out in table 8, the CACM countries have been making noticeable gains in their livestock production and this can be partly attributed to increased use of feed grains. The value of feed grain and other animal feedstuff imports was \$18.1 million in 1965 compared with only \$5.6 million in 1959. Most of this import expansion has been of intra-Market trade, which increased from \$2.9 million in 1959 to \$8.5 million in 1965. Of the \$8.5 million in intra-Market trade in 1965, about 70 percent was corn supplied to other CACM countries by Honduras. Food wastes and prepared animal feeds are the major products imported from the United States.

Though greater feed utilization efficiencies yet need to be attained in the CACM livestock industry, it is apparent that CACM trade policies dictate greater reliance on CACM produced feed supplies. For example, a grain protocol was signed in October 1965, which covers the feed items of corn and sorghum, and also rice and beans. Principal points of the protocol are that there be variable duties on imports from third countries to bring the import prices up to the internal price support level, that Common Market countries have first preference on imports and exports with prior consultation required before trading with nonmember countries, and that import quotas for third countries be established by a coordinated committee for marketing and price stabilization.

Dairy products.--Dairy product imports by the CACM increased 72 percent between 1959 and 1964, but remained at the 1964 level of \$10.3 million in 1965. Intra-Market trade of dairy products remains relatively small even though all products, except cheese, can be traded freely within CACM. A major part of the products imported are canned milk products from the Netherlands and Denmark. Dairy herd improvement programs are active in CACM, and undoubtedly milk production will continue to expand at a significant rate.

Vegetables and products.--These food products, with the exception of beans, are largely free-traded within the CACM. Imports increased from \$4.3 million in 1959 to \$6.9 million in 1965, with CACM suppliers controlling 82 percent of the market in 1965 compared with 54 percent in 1959. Imports from the United States declined from \$1.7 million in 1959 to \$0.9 million in 1965. Guatemala is the principal supplier of such products within CACM as her altitude makes it possible to grow temperate zone vegetables which do not thrive in most of the other countries of Central America.

Animals, live.--Live animals is one commodity grouping in which the United States has been able to increase its share of the import market. This is due to the purchase of U.S. breeding stock -- mainly purebred cattle and baby chicks. Total live animal imports increased 10 percent between 1959

and 1965, and the United States increased its share of the \$7.0 million market from 20 percent to 43 percent. CACM data on quantities imported are not currently available; but according to U.S. export data, exports to CACM of breeding cattle increased from less than 1,000 head in 1959 to about 6,000 head in 1965.

Cereal preparations.--Cereal preparation imports were \$5.7 million in 1965, compared with \$3.4 million in 1959. The United States had 73 percent of the market in 1959, but its share dropped to 25 percent in 1965. Most cereal preparations now move freely within the CACM. The increase in imports from other countries is mainly due to larger imports of malt or malt flour from Canada.

Fruits and products.--CACM countries have taken over a substantially larger share of the import market for fruit and fruit products -- commodities that move freely within CACM. Total imports of such commodities increased from \$3.2 million in 1959 to \$5.5 million in 1965 with CACM countries increasing their share of the market from 32 percent to 58 percent. Although the U.S. share of the market is down appreciably, the United States has remained the second largest supplier by providing mainly preserved fruit products.

Animal fats and oils.--The CACM imported \$3.7 million of animal fats and oils in 1965 with 88 percent coming from the United States. Tallow is the major product imported and is used primarily in soap manufacture. Detergents are now being manufactured in CACM, and sales have shown a significant increase. Therefore, the import market for U.S. tallow is probably of a limited duration.

Vegetable oils.--Like animal fats and oils, vegetable oils are traded freely within the CACM. Intra-Market trade of such commodities is increasing, but most of the increase is in the form of manufactured products rather than in the raw state. Vegetable oil imports were \$3.2 million in 1965 with imports from the United States of \$0.8 million. Guatemala, El Salvador, and Nicaragua are increasing cotton plantings substantially, and thus cottonseed oil production is also increasing. Most of the intra-Market trade of vegetable oils is of this product. Nicaragua has become a major supplier of cottonseed oil to the world's major import markets. For example, Nicaragua supplied 60 percent (129,958 metric tons) of Japan's imports of cottonseed oil in 1965.

Rice.--CACM imports of rice increased from \$2.2 million in 1959 to \$2.8 million in 1965. The United States remained the largest shipper by supplying \$1.7 million worth in 1965 -- up from \$1.1 million in 1959. Intra-Market trade doubled between 1959 and 1965 as El Salvador and Nicaragua became the major suppliers within CACM.

In summary, the Central American Common Market imported more agricultural products during 1959-65 as per capita income increased. However, economic integration has helped these countries to increase their share of agricultural imports from 25 percent of the CACM market in 1959 to 36 percent in 1965. Third country suppliers including the United States will probably have to contend with a more restrictive CACM trade policy, as more common external tariffs are consummated.

